

Thirty-five cents

WHAT A WAY TO RUN A RAILROAD



By Gary Allen



Leo Witt

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Gary Allen, a graduate of Stanford, is author of the best-seller *None Dare Call It Conspiracy*. Mr. Allen has just published a new book, *The Rockefeller File*.

■ TRADITIONALLY the first step in nationalizing industry has been a take-over of the railroads. Today, almost all of the major railroads of the world are owned by governments. While service varies from good to atrocious, all are plagued by perennial deficits.

Canada has a unique situation with two major railroads operating

within her borders — one, the Canadian National, is owned and operated by government; the other, the Canadian Pacific, is privately owned and operated. In 1973 the private carrier made \$32.6 million after taxes. Canadian National, "owned by the people of Canada," lost \$46.7 million. The difference Free Enterprise made was a mere \$79.3 million. In

1971, government railroading lost \$219 million in Britain, \$111 million in The Netherlands, \$1.595 billion in Germany, \$1.184 billion in France, and \$1.133 billion in Japan.

The U.S. railroads, with all their union-inspired featherbedding, employ 2.7 employees for each mile of track. But in those countries where the government operates the railroads the number of workers required for each mile of track is almost beyond belief. It takes 20.7 Englishmen, 12.9 Frenchmen, 22.1 Germans, and 19 Italians for each mile of track in their respective countries. Since featherbedding is the Number One problem with American railroads, it is clear that the government-owned railroad systems abroad represent Parkinson's Law run amok. In every instance, nationalization has created a bottomless pit into which the taxpayers have been required to pour an endless stream of money.

Yet many of America's privately owned railroads are also staring financial disaster in the face. The primary reason is the unions, which exercise their political clout in Washington and the various state capitals to maintain inefficient and archaic work rules. Yet practically nobody, including railroad management, is advocating the abolition of featherbedding to restore the nation's railways to financial health. Almost everybody is looking to the government to bail out the sinking railroads by putting the taxpayers in perpetual hock. The government is only too happy to comply. The *Washington Post* reported one of the typical plans on February 24, 1975:

Federal planners will recommend this week virtual nationalization of all major rail roadbeds and tracks in the Midwest and Northeast — with federal ownership, rehabilitation and

maintenance of the currently dilapidated system for the rest of the century.

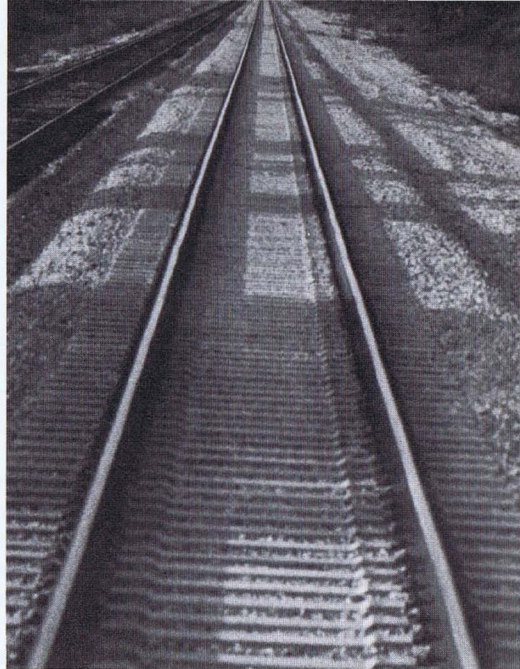
While a number of plans have been proposed, much like the one cited above, all have the common vice of nationalization. The first major move came in 1971 with the creation of Amtrak, which took over the passenger business nationwide from the private companies. The railroads had long sought to get out of the passenger business, since it was almost universally unprofitable, but the Interstate Commerce Commission (I.C.C.) had refused to permit this, forcing the railroads to lose considerable sums. Finally, Amtrak was welcomed by the railway companies as a means of escaping a suffocating burden.

Amtrak proponents claimed that railroads deliberately provided poor passenger service, and that if clean, modern trains, offering efficient, rapid service, were available, the public would come flocking back to the trains. It was nonsense. If the railroads could have made a profit hauling people, they would have been only too happy to do so. The brutal truth is that the airlines provide faster service and the automobile provides greater flexibility. There are simply not enough people who want to travel by train to pay for the cost of passenger service. But the politicians, bureaucrats, and government planners — ever eager for more power — decided to take control and require the people who do not want to travel by train to subsidize the fares for those who do.

For example, it costs \$14.50 to take the train between New York and Washington, but the actual cost of delivering your body between the two points by train is double that figure. The difference is made up by the



Brent Welling/Business Week



Track at left is Penn Central, at right Florida East Coast. The F.E.C. can afford such maintenance because it threw out featherbedding. Had Penn Central done so it would have had \$387 million profit instead of \$273 million loss.

taxpayers, most of whom live in places Amtrak never visits. During 1974, Amtrak posted operating revenues of \$257 million and losses of \$273 million, up seventy-two percent from the previous year. In other words, passenger revenues were less than half the expenses. Can you imagine General Motors selling Chevrolets for half the cost of manufacturing them?

Writing in the *Los Angeles Times*, economics journalist Robert Samuelson observes: "Now four years old, Amtrak is a dismal failure. It is a giant (and growing) rat hole into which the government — which is to say, the taxpayer — is pouring hundreds of millions of dollars, with little prospect that the money will ever contribute significantly to solving either the nation's energy or transportation problems." Samuel-

son concludes by lamenting: "There seems to be no light at the end of the rat hole."

Now the federal government, having failed to produce the instant Nirvana it promised with Amtrak, is moving into freight hauling. While airplanes, busses, and cars have rendered most rail passenger business unprofitable, the railroads do want to haul freight. For hauling heavy freight long distances in a free market you can't beat the railroad. But, as we shall see, there is no free market, and many of the nation's railroads, even with the monkey of the passenger business off their backs, are still facing bankruptcy.

Rather than deal with the causes of this insolvency, the government is preparing to go into the railroad business through what is known as Conrail (Consolidated Rail Corporation).

A newly chartered government corporation called the U.S. Railway Association presented the Conrail plan in July to consolidate seven financially ailing railroads into one huge government-owned operation. Conrail will nationalize the Penn Central, the Ann Arbor, Erie Lackawanna, Reading, Central of New Jersey, Lehigh Valley, and the Lehigh & Hudson River. This megasystem will span the industrial Northeast between Chicago and St. Louis on the west and Washington, Philadelphia, New York, and Boston on the east.

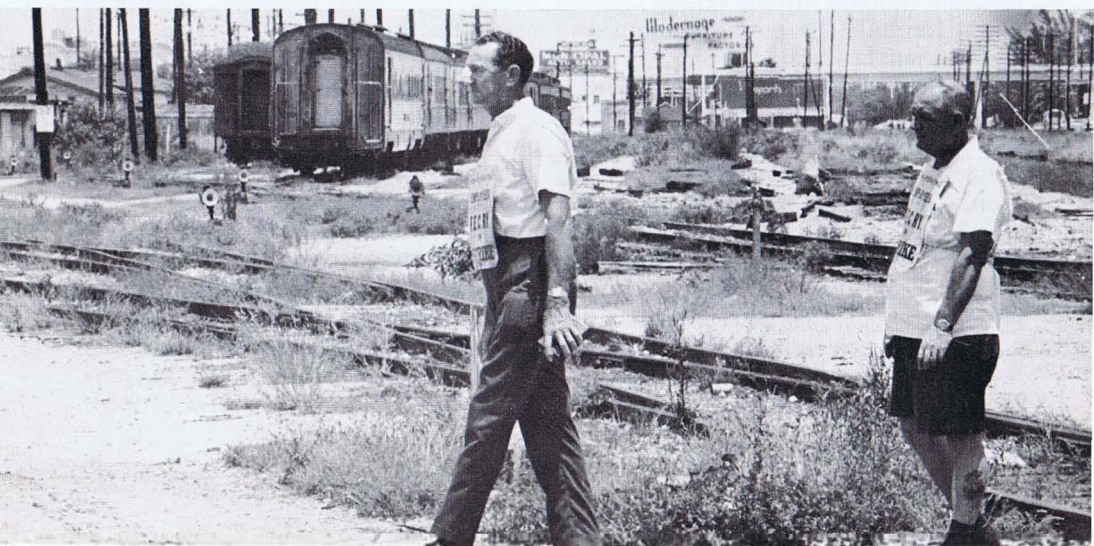
The Conrail plan is the largest corporate reorganization in history and will encompass fifteen thousand miles of track. The package carries an initial price tag of \$6.5 billion and only the most gullible believe that is anything but the beginning. Conrail is scheduled to begin operation this spring. The First National City Bank has already submitted a grim assessment of the system's future to the House Transportation Subcommittee. The report from the analysts at Citibank calculates the money needed to restructure the bankrupt Northeast railroads at fifteen billion dollars.

Citibank also studied some seventy railroads outside the Conrail System and projected cash needs over the next ten years at twenty-two billion dollars more than expected revenues. The *New York Times* reported: "Although the cost of the Conrail program has long been a matter of dispute, Citibank's analysis of the looming financial problems of the railroad industry as a whole struck members of the House subcommittee as particularly sobering."

Sobering, indeed. One can imagine a cloning of Conrails or an expansion of Conrail until it swallows up every railroad in the nation. It is almost impossible to imagine the government not throwing the profitable railroads into the pot with the unprofitable ones. After all, the politicians do not want anything as embarrassing as the situation in Canada where the Canadian Pacific runs a profitable operation side by side with the money-losing Canadian National. Our politicians eventually will demand that the *greedy* profitable companies share their earnings with their unfortunate brothers to offset the ever-expanding Conrail losses.

Ed Ball challenged unions and they struck; he eliminated featherbedding and runs F.E.C. more efficiently with 900 workers than with union-required 2,200. In 1974 the F.E.C. had \$6 million net income after paying \$8.2 million taxes.

Wide World



Yet, as bleak as the future looks for the railroads, it need not be so. The railroads could be healthy and prosperous, providing ever better service to their customers at increasingly competitive rates. This is not just theory. Right now the management of an American Class I railroad is proving by example what can be done. That railroad is the Florida East Coast (F.E.C.), which runs from Jacksonville near the Georgia border down to Miami at the bottom of the state.

The inspiring story of the Florida East Coast and its battles against politicians and union leaders reads like a plot from an Ayn Rand novel. In an era when businessmen are surrendering to pressures from Washington with the regularity of sunrise and sunset, it is exciting to find an organization which is standing up to Big Brother and the union goon squads. In doing so, the F.E.C. has shown what happens where liberty and competition are allowed to follow their natural course, free from the dictates of politicians, bureaucrats, and labor monopolists.

The Florida East Coast was an offspring of Henry Flagler, a partner of John D. Rockefeller in the original Standard Oil Company. Flagler discovered Florida in the late 1880s while honeymooning in Jacksonville. Captivated, he became interested in developing the state as a tourist area to which snowbound Yankees might journey in the winter to enjoy balmy breezes and an attractive climate. Henry Flagler began building luxury hotels along Florida's east coast and constructed a railroad to take visitors to his hotels. Dreaming of an American Riviera, he was responsible for the prosperous development of many Florida cities including Miami.

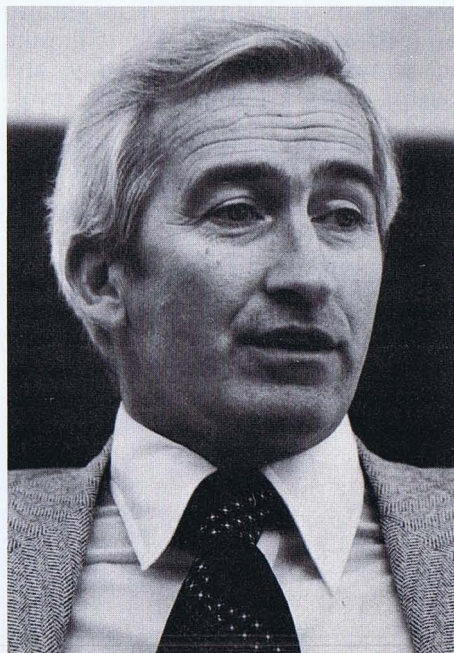
During the great Florida land

Edward Ball



Dick Haeseler

Winfred Thornton



Brent Welling/Business Week

boom of the 1920s, the F.E.C. went into debt to the tune of forty-five million dollars to finance the double tracking of its main line between Jacksonville and Miami. Then the Great Depression buried the Florida land boom lower than the Dow Jones averages. The F.E.C. was unable to meet the interest payments on its bonds and the railroad was thrown into receivership. The Interstate Commerce Commission would not let the railroad stop running so it chugged along in receivership for an incredible *thirty years* while various groups battled for control of the impoverished line.

It was during this period that the hero of our story, Mr. Edward Ball, decided to become involved. Both Ball's admirers and detractors admit that he is an American of another age. This is understandable since he is. Edward Ball was born in Virginia in 1888, and today he is a spry eighty-eight years old. Even his most committed enemies admit, however, that the Fox of Jacksonville is as shrewd and effective as ever. He still puts in a full eight-hour workday and begins every evening with his favor-

ite toast: "Confusion to the enemy!"

Ball comes from one of the first families of Virginia. Like many other proud families in the South, his suffered hard times after the Civil War. His father was a lawyer and wanted his son to go to college, but young Ed already had a keen eye for a dollar and persuaded the elder Ball to let him go into business at age thirteen. His first business venture involved cutting down walnut trees and hauling them to Baltimore for sale to furniture manufacturers.

After serving in the Army in World War I, Ed Ball heard the knocking of opportunity in California where he sold automobiles and cash registers. Then, deciding that opportunity was even greater in Florida he decided to go wrestle alligators. Edward Ball left a job paying eighteen thousand dollars a year to take a five-thousand-dollar job trying to pull a canning plant out of the red for his brother-in-law, Alfred I. Du Pont, the maverick of the Delaware chemical family who had fallen in love with Florida. He soon informed Du Pont that the canning

Under union featherbedding rules it required three 5-man crews to make 9-hour run from Jacksonville to Miami. Today the job is done more safely with two men. Under the union system, two men work while thirteen ride the featherbed.

Leo Witt



plant was a lost cause and was asked to stay on as the millionaire's Man Friday. It was one of the smartest decisions Alfred Du Pont ever made.

When Du Pont passed away in 1935, Ed Ball was appointed to manage his brother-in-law's thirty-five million dollar trust. Apparently he has done a rather good job of it as newspaper accounts say that today the trust has assets in the neighborhood of two billion dollars. Ball put the Du Pont trust into real estate, banking, and paper manufacturing. It was through Du Pont's St. Joe Paper Company that Ball began his efforts to gain control of the floundering F.E.C. by buying up the road's defaulted bonds.

Even though Edward Ball had controlling interest in the railway on paper by the early Forties, the F.E.C. remained in receivership as factions fought over the right of way. Finally, in 1959, a district court approved a reorganization plan which soon put the F.E.C. under the control of Ed Ball, who at age seventy-two took on the job of rejuvenating a railroad which had been in limbo for nearly thirty years. In 1960 he began serving

as chairman of the board at the staggering wage of one dollar per year. Tranquility reigned . . . briefly.

By 1962 the non-operating railway unions were clamoring for a wage hike. In March of that year, President Kennedy established a special emergency board to work out a settlement and prevent a nationwide rail strike. Two months later the board recommended a 10.28-cent-an-hour pay raise. The unions and 192 of the nation's 193 Class I railroads accepted the government's recommendation. Mr. Ball and the Florida East Coast respectfully declined.

In view of the spiraling inflation which has taken place in the past fifteen years, the amount seems a pittance. But to the F.E.C. at the time it was not. Ed Ball explained to your reporter that he had a number of reasons for rejecting the government's decision. The line had lost money in twenty-eight of the previous thirty years. In the ten years previous, the railroad had lost a total of twenty-three million dollars. Mr. Ball felt it was foolhardy to raise wages. The F.E.C. had only been out of receivership one year and was

Making a profit, the Florida East Coast can afford to spend twice as much as the average railroad on maintaining right of way and, without featherbedding in name of safety, has 75 percent fewer accidents than the industry average.

—Leo Witt



struggling to get into the black. The situation was made worse by the fact that freight-traffic heading for, and coming from, Cuba was now shut off by the embargo on Castro. That lost traffic had been worth four million dollars a year in revenue to the Florida East Coast.

There were other factors besides the poor financial condition of the F.E.C. which led Ed Ball to reject the union's demands. He did not feel it was right to require his business to be bound by bargains it had no hand in reaching. Each railroad, he noted, faced different circumstances, and it was therefore ridiculous for all roads to pay exactly the same wages. The cost of living in Florida was well below that of other sections of the country. The railway was paying \$2.06 per hour to unskilled labor at the same time the State of Florida was paying its unskilled labor \$1.20 to \$1.40 an hour. Because of the differences in pay scales between Florida and other states, the F.E.C. believed the unions were "in reality asking for a substantial allowance above that of other railroads."

The union bosses did not see it that way. A union spokesman declared that the Florida East Coast railroad should go along with the wage hike despite its precarious financial situation "since other Class I carriers in worse financial condition than the F.E.C. agreed to the wage increase." Many of those who surrendered are now in Washington with their tin cups begging Conrail to save them from disaster.

The unions were of course adamant about not settling separately with the F.E.C. As G.E. Leighty, chairman of the Railway Labor Executives Association, put it: "We don't propose to have a little railroad like the Florida East Coast set the pattern for the entire industry." The

railroad made a compromise offer which would have provided a larger pay raise, but spread it out over a longer period of time to allow the company to get back on its financial feet. The union said "no dice" and announced a strike for January 1963 unless the F.E.C. went along with its demands.

The strike was to prove the longest in railroad history, and before long that ten cents an hour raise in wages had been overshadowed by much bigger issues.

The workers were warned before the strike began that anyone who went out would be considered to have quit the job. After all, why should an employer hold a job open for a man who has refused to show up for work? Apparently the union bosses thought Ed Ball was kidding. Nobody had taken an attitude like that in years. The workers were led to believe that the strike would be short and relatively painless. Strikers would receive fifty-one dollars a week from the Railway Retirement Fund plus another fifteen dollars a week from a national strike fund. This tax-free sixty-six dollars represented a substantial percentage of a worker's take-home pay after taxes and union dues had been deducted. The unions felt they could afford to hold out longer than the railroad.

On January 23, 1963, the non-operating F.E.C. workers officially struck. The operating workers — those who worked on moving trains — refused to cross the picket lines and were, for practical purposes, on strike also. For ten days all was quiet on the Florida front. Then the Florida East Coast did a startling thing. It ran a train. Supervisory personnel

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served as a train crew to take twenty empty freight cars from Jacksonville to Miami where they would be interchanged with other railroads.* The union leaders ridiculed the effort. "They'll never make a success by running trains with supervisory crews," strike leader Jack Hadley told the press. Ball clipped the story for future reference.

Within a few days the Florida East Coast had one train running daily each way between Jacksonville and Miami. By the middle of February, fifteen percent of the pre-strike freight level had been reached. Ball, and the railroad's operations manager, Win Thornton (now president of the F.E.C.), found that running a railroad without union employees was not as tough as they had been led to believe. The Florida East Coast began hiring students out of the local colleges, and factory workers who found that the railroad was offering better wages than could be made on the assembly line. The new workers were given a crash training course and put to work.

With a twinkle in his eye, Ed Ball told your reporter: "All this propaganda about it taking years of experience to become a locomotive engineer is a lot of bunk. It takes at least all morning to learn how to run one competently. A locomotive is actually much easier to run than an automobile. About the only thing you really have to know is how soon to start applying the brakes so you don't shoot your train a couple of miles

past the station at which you are supposed to stop." If he was exaggerating it was not criminal hyperbole.

Now the strike was getting serious. The union leaders who had laughed at the idea that the railroad's owners could run the line with supervisory personnel realized that Ball meant what he said about replacing strikers who did not want to work for the wages being offered. The cries of "Scab" were drowned out by the rumble of wheels as the trains rolled on the east coast of Florida. At the beginning of April the operating workers, who were not officially on strike but had not crossed the picket lines, formally joined the strike as their "Scab" replacements highballed freight up and down the line. By August the F.E.C.'s freight service had been restored to ninety-five percent of normal.

The strike had turned out to be a blessing in disguise. For years the railroads and the unions had been going round and round over the issue of featherbedding. The unions had claimed that large crews were necessary safely to run the trains. That claim was about to be knocked into a cocked hat.

The union bosses, reactionaries that they are, have forced the railroads to operate under archaic work rules. During the last century a hundred-mile trip was a full day's work, but with today's faster trains a hundred-mile trip might take only two hours. Nonetheless, at the end of the hundred miles, the train stops and a new crew is taken aboard. Before the strike it took three full five-man crews to take a train three hundred fifty miles from Jacksonville to Miami. Each crew earned a full day's wages for its hundred-mile run. This meant that fifteen men were paid a full day's wages for the nine-hour

*A railroad must pay a rental fee called demurrage to the owner of a freight car for every day the car sits empty on its tracks. When the strike started, there were approximately two thousand freight cars on F.E.C. tracks which belonged to other railroads. Mr. Ball was most anxious to return those cars to their owners rather than pay demurrage through a long strike.

trip. With the union out on strike, the F.E.C. began using one three-man crew to make the entire trip. This saved the railroad seventy-eight percent in wages — over two million dollars per year.

Since that time, the F.E.C. has found that it does not need the third man and makes its runs with only two. So two men are efficiently doing the job the union said required fifteen. Under union work rules two men work while thirteen ride the featherbed. Is it any wonder that our railroads are in financial trouble as railroads whose managements haven't the courage of Ed Ball and his team at Florida East Coast pay and pay? Union featherbedding has forced the nation's marginal railroads into bankruptcy and driven freight rates well above what they would be in a competitive market.

When the strike began the F.E.C. had twenty-two hundred employees. Management soon learned that it could operate the railroad very efficiently with nine hundred. According to Ed Ball: "When I took over the road in January 1962, we had thirty-three hundred employees. I thought I had done a great job in paring the work force down to twenty-two hundred by the time the strike started. We had no idea of the total extent of featherbedding that had been built in over the years."

Cutting the train crew from fifteen to two, as the F.E.C. did, was only a beginning. Under the union's work rules a separate train, a local, was required to set out and pick up cars along the main line. Now the regular through freights did this. Yard-crew workers were cut back to seventy-two from the 191 required by the union under the old featherbed rules. Road-crew workers were cut from 152 to fifty-two, and did a better job. Dismantling the make-

work rules, F.E.C. also terminated the entrenched "craft union" status of the non-operating workers. Where formerly, for example, a secretary couldn't change a light bulb but had to call in an electrician, any worker might now do any job for which he was qualified. For eight hours pay a worker now did eight hours work. The union screamed as if the railroad had declared war on God, motherhood, and draught beer. The national labor paper cried that Ball and Thornton were "wiping out employees' rights" and "turning back the clock forty years in the labor movement."

Before the strike was many months old the union realized that the battle would have to be won by other means. The Florida East Coast was running better than ever and, thanks to the efficiency of its management in dealing with the strike, operating expenses were being slashed by millions. Some frustrated union members turned to violence. During the first year and a half of the strike over four hundred incidents of sabotage were perpetrated against the railroad.

The violence started with cutting air hoses; signal wires and cables were shot in two; a bridge walkway was set afire; an oil tank was drained; cargo was damaged and the tires of workers' cars were punctured. Switches in yards were jammed, causing freight cars to derail. The F.B.I. arrested three union members in connection with the alleged planting of fifteen sticks of dynamite on F.E.C. tracks near Fort Pierce. Later a fourth man, an officer of a union local, was arrested.

During the first six months of the strike, the vandals assumed the stance of a boxer, feinting and warming up for the big barrage. As negotiations toward a settlement waned, things got rougher. The rail-

road tabulated eighty-three incidents in May, June, and July. Employees scorned as "Scabs" were now targeted for violence. A section foreman was beaten and kicked (one attacker was convicted), an engineer was cut by flying glass in his cab, the life of a railroad policeman was threatened, and another railway officer was pulled from his moving car and assaulted. Molotov cocktails, lead pellets, rocks, and paint bombs were hurled at employees' homes or cars.

Beginning in 1964, things really turned nasty as saboteurs began dynamiting trains, stacking up freight cars like cordwood. In all, eight trains were dynamited. Law-enforcement officers were stymied, and the only instance in which a sabotage plot was thwarted in advance was when four boys spotted a massive dynamite charge under the tracks near Titusville and jerked loose the detonator wires minutes before a freight train rolled by. Miraculously, no one was injured in any of these explosions.

The dynamitings came to an end when the saboteurs made the mistake of setting off two bombs in one day as Lyndon Johnson was on a speaking tour of Florida. The President was infuriated when one of the explosions occurred within earshot of where he was delivering his oration. Reading the newspaper headlines that overshadowed the report of his visit, the President called F.B.I. Director J. Edgar Hoover and told him to put a squad of agents on the case. Thirty F.B.I. agents swarmed over Florida and soon four strikers were in custody. Union leaders had denied that their members had anything to do with the dynamitings, but the denials were hushed to a whisper with the arrest and subsequent conviction of the four.

The railroad was by now forced to spend \$350,000 a year for security guards to ride shotgun on its trains. Armed guards rode ahead of each freight in a "hi-rail" car — a converted station wagon fitted with four small rail-size wheels that kept it on the track. This "scouting" of the track helped spot sabotage. Guards in the "hi-rail" stayed in constant radio communication with the freight highballing along behind them. The wagon was equipped with "track sweeps" to push chains or other objects off the rails. It was all a big nuisance and very expensive, but it kept the trains rolling.

What the unions could not win on the picket line, and through violence and sabotage, they tried to achieve through the government and the courts. They sought to apply their enormous political power to force Ball to compromise. In the first weeks of the strike, the National Mediation Board sent two mediators to the railroad's headquarters in St. Augustine to determine whether management and the strikers could be brought together. They departed minutes after arriving when Ed Ball insisted that the *conversations* be tape recorded.

In mid-May of 1963, Secretary of Labor Willard Wirtz, brother of an Illinois Communist Party organizer, asked Ball and the workers to submit to binding arbitration. Ed Ball was not born yesterday either figuratively or literally. He replied: "The railroad does not desire to submit the issue to non-interested parties to settle the question in dispute" Mr. Ball was well aware that the government-appointed arbitrators would be "about as neutral as your mother-in-law acting as a judge in your divorce hearings."

Mr. Ball quickly became the target of more invective from the union

leadership and "Liberal" newspapers. In this day and age management is not supposed to stand on principle, but to be "reasonable" and surrender. When it became obvious that Ball would not surrender in whole, he was called upon to surrender in part. After all, everybody else compromises. Who the Hell did Ed Ball think he was?

After the Florida East Coast refused to accept arbitration, Secretary Wirtz requested that President Kennedy appoint a special board to study the situation and make recommendations. The board was created by Executive Order 1127. It was formed on the legal fiction that the strike was now an "emergency," a situation the National Mediation Board had previously denied. Win Thornton observed that government intervention came after more than ninety percent of pre-strike freight service had been restored. The government, he said, "is applying the federal iron hand without its usual velvet glove." According to the F.E.C. operations officer: "The only 'emergency' is that the unions have lost the strike and want the government to pull their chestnuts out of the fire."

The supposedly impartial government board suggested (surprise!) that Ed Ball should pay the 10.28-cent hourly increase, discharge his efficient new employees, and rehire the strikers. Thornton and Ball were not about to do that. "I certainly expect to stand by these men," Ed declared. "They have operated the railroad while the others abandoned it. It seems to me the [union] employees have struck themselves out of a job."

Eighteen lawsuits were filed against the Florida East Coast during this period by the government and unions. Some verdicts went in favor of the railroad and some against. But

the F.E.C. won the big one in the Supreme Court when that body ruled that a railroad, despite federal regulations, could legally hire non-union workers to continue its operations when union employees went on strike.

Barron's, the national business and financial weekly, observed: "To the annals of private enterprise, the Florida East Coast Railway had contributed an inspiring chapter. Despite widespread hostility and lawlessness, management steadfastly has refused to bow to what it condemns as unreasonable union demands. In the process it has given the industry, and the whole country, an impressive demonstration of how efficiently and sensibly a railroad can be run. Last week Mr. Ball and his associates scored perhaps their most noteworthy triumph. By a seven-to-one majority, the U.S. Supreme Court upheld the carrier's right, under certain conditions, to operate with its own personnel and by its own rules. In short, in response to its plea, the High Court reaffirmed the doctrine of self-help. The victory may win Mr. Ball scant kudos from businessmen who, in the name of partnership, willingly surrender their prerogatives to government. However, among those who still cherish the freedom to manage their affairs, it counts for much."

The strike by the non-operating unions against the Florida East Coast was settled more than nine years after it began. The strike by the operating unions over (non)work rules goes on, in theory, to this day. By the time the strike was settled, only one hundred of the original two thousand strikers were still holding out. The others had already returned to work in defiance of the labor bosses, retired, moved elsewhere, or taken jobs on other railroads or in other industries. A disillusioned worker re-

sponded to Mr. Ball's statement that he was pleased with the terms of the settlement: "God knows he ought to be. He ran the unions off, and that's what he set out to do so he could run the railroad the way he wanted to and not the way the government or the unions said to."

James J. Reynolds, an Assistant U.S. Secretary of Labor, said of Ball that "you can't say he's hard as a nail — at least nails bend," and complained that he has a "petulant insistence that has no place in this century." Countered Ball: "I subscribe to the theory that, if it means to belong to the Twentieth Century you've got to jump through a hoop every time some union or some government official holds one up, then it is true I don't belong to this century."

Ed Ball's victory over archaic union rules has allowed the Florida East Coast railroad to provide its customers with greatly improved service. Before F.E.C. beat the union bosses it, like the other roads, ran unwieldy two-hundred-car freight trains in order to offset feather-bedded crew costs. Now the line runs trains of sixty to seventy cars, but runs them much more frequently, a considerable advantage to the customers who get faster, more flexible service. Ball spent his early business years in sales and knows that the name of the game is to keep the customers happy. He has not forgotten the lessons he learned as a young man. "We give the best service of any railroad in the country," he boasts.

Happy customers usually mean greater profits, and that has been the case with the Florida East Coast. By the last quarter of 1963, with its work force cut down to an efficient size, the railroad was operating in the black. In 1964, it earned \$2.3 million. In the intervening years, as railroad

after railroad went into bankruptcy, or was forced to merge with other roads to avoid the poorhouse, the F.E.C. has continued to make healthy profits.

And this railroad operates profitably despite such natural disadvantages as the fact that it must compete with an intercoastal waterway, a parallel railroad, two interstate highways, and four deep-water ports. "That's highly unusual competition for a railroad," President Win Thornton notes. In addition, the Florida East Coast is a peninsular railroad which runs loaded freight cars south to Miami but must bring a high percentage of empties back to Jacksonville. Other roads, running loads both ways, have a natural advantage in efficiency.

When the Ball-Thornton team took over the F.E.C. in 1961, after thirty years of receivership, the road was in badly run-down condition and deeply in debt. Since its reorganization, the entire F.E.C. physical plant has undergone a vast improvement — all financed from earnings. The major items of modernization include the installation of 261 miles of centralized traffic control, 238 miles of welded rail, 134 miles of concrete crossties, electronic hotbox detectors at approximately twenty-mile intervals, automatic crossing protection at seventy-four percent of all crossings, and the purchase of eighteen three-thousand-horsepower locomotives (thirty-two percent of the fleet), seven thousand freight cars (fifty-six percent of the fleet), and three hundred ten auto racks (one hundred percent of the fleet). The company owns all of its equipment outright and is possibly the only railroad in America without an equipment trust issue.

In addition, the Jacksonville, Miami, and Fort Pierce yards have been

rebuilt, as have the locomotive shop at New Smyrna Beach and the car shop at Jacksonville. Gross expenditures for capital improvements since 1961 have been over fifty-one million dollars. Yet the long-standing debt of the railroad has been reduced from approximately fifty million dollars to eighteen million. From 1960 to 1974, freight revenues increased from \$22.3 million to forty-six million. In 1960 there was not sufficient income available to cover fixed charges, but in 1974 there was a net income of six million dollars after paying an \$8.3 million tax bill, including a federal income tax of \$4.2 million.

Meanwhile, the efficient F.E.C. spends twice as much (on a percentage basis) on maintenance of the right of way as does the average railroad. Many railroads (of which the giant Penn Central is the prime example) have had to let their tracks degenerate to the point where they are so dangerous that train speed has had to be reduced to ten or fifteen miles per hour — because after financing union featherbedding there are just no funds left for proper maintenance.

The unions have traditionally justified their featherbedding on the ground that it was necessary for safety. This is another self-serving fraud which the F.E.C. has buried beneath an avalanche of reality. Over the past five years, train accidents per million train miles have been seventy-five percent *less* on the Florida East Coast than the industry average. Thornton ascribes this to the road's efficient supervisory system and the fact that the road has invested millions of dollars in modern track and electronic safety devices which prevent wrecks and accidents. Over the past five years the F.E.C. has finished either Number One or

Two for the nationwide Harriman Safety Award.

The boys in Florida East Coast's accounting department have figured out how much better the deficit-ridden railroads of the country would have done if they had operated under the F.E.C.'s work rules. They did this by comparing transportation ratios arrived at by dividing labor costs into total operating revenues. The Florida East Coast's transportation ratio for 1974 was 24.9. The ratio of the failing Penn Central was nearly double that at 46.2. For the year, the F.E.C. made a profit of \$3.9 million while the Penn Central *lost* \$91.5 million (almost two million dollars per week). If the Penn Central operated with the same efficient work rules as the F.E.C., that \$91.5 million loss would have been turned into an after-tax profit of \$387 million.

If the Penn Central was generating \$387 million in profits each year, the railroad business would suddenly be a growth industry instead of a depressed sector begging for alms from the taxpayers. It would mean that the railroads would be helping to support government by their taxes instead of *vice versa*. It would mean lower taxes for the rest of us, better freight service, and lower freight costs for American consumers. Every product you buy has to include in its price the costs of transporting it and everything that went into it. The higher the freight rates the more you pay for everything.

While Ball and Thornton are justly proud of their accomplishments, they are extremely disappointed that their success has not lent courage to other railroads to do the same thing. The lamentable truth is that no other railroad management, not one, has sought out Florida East Coast officials to discuss the subject of ending

featherbedding. Thornton reports sadly: "They feel overwhelmed by the unions. They have a defeatist attitude."

Win Thornton says that with better management and efficient work rules the railroads could run more efficient schedules and substantially improve their ability to deliver more freight more quickly, increasing their competitive position. This alone, he explains, would instantly erase the freight-car shortage and would clear congested freight yards. "It's understandable that some unions would like to sweep this under the rug," says Thornton. "But I'm disappointed that I haven't heard from managers of other lines."

With hundreds of millions of dollars in potential railroad profits at stake, not to mention billions more in tax monies, this does seem odd. But Win Thornton thinks F.E.C.'s effort to publicize the terrible expense the consumers must pay to finance "antiquated work rules" is useless unless rail management speaks out with a collective voice. And, lest you think Florida East Coast's education campaign is a ballet of altruism, consider Thornton's explanation: "The F.E.C. is losing traffic every single day because the Penn Central is not doing its job."

Why are the mighty captains of the railroad industry so cowardly? Apparently there are several reasons. Basically they have been defeated psychologically by having spent years on their knees before union bullies who are backed up by the federal government. Corporate bureaucrats are happy to throw in the towel to union demands and then get a rate hike from the Interstate Commerce Commission. And when the increase

does not prove to be enough to keep the line going, they know they can call for nationalization via Conrail. Just as the American Medical Association has made its peace with socialized medicine, figuring that the government will need the A.M.A. to manage and administer government medicine, so the rail chiefs are convinced they will be needed to run the government-owned railroads.

Conrail satisfies both the union fat cats and the management fraidy cats. It further institutionalizes all of the out-of-date work rules which the F.E.C. has eliminated so profitably. It perpetuates the inefficiencies, which will probably be multiplied as nationalized railroads pass increased costs along to browbeaten taxpayers and consumers.

This madness will not stop until enough heat is put on Congress to stop the Labor Department and the Interstate Commerce Commission from fleecing the consumers and taxpayers by playing ball with the union bosses and cooperating corporate bureaucrats who run so many of the railroads. Many Congressmen have privately told Messrs. Thornton and Ball that while their approach to running a railroad is obviously the only sane one, it would be political suicide for a Congressman to support it. So it is back to the boards for the Americanists. We can solve the railroad problem when there is enough understanding at the grassroots level to elect Congressmen who will do the right thing.

Meanwhile, Win Thornton and Ed Ball will have to forgive us if we embarrass them with our thanks for proving that the American system still works when men have sufficient courage to try freedom. ■ ■